

# AUDIT REPORT

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA

OCTOBER 31, 2020



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RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
OCTOBER 31, 2020

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Rural Water District #13  
McIntosh County, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying modified cash basis financial statements of the Rural Water District #13, McIntosh County, Oklahoma, as of and for the fiscal year ended October 31, 2020, as listed in the table of contents and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting

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estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

## *Basis for Adverse Opinion*

For the year ending October 31, 2020, adjustments, which could not be verified as to having been approved by the board or management, were made to reduce accounts receivable in the billing software by a total of \$11,344.94. These reductions could be the result of cash receipts that are posted in the billing software but never deposited into the bank. However, because of the lack of documentation and approval of these activities, these items are considered unexplained.

## *Adverse Opinion*

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly, the modified cash basis financial position of the Rural Water District #13, McIntosh County, Oklahoma, as of October 31, 2020, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## *Basis of Accounting*

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2021, on our consideration of the Rural Water District #13's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rural Water District #13's internal

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control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Rural Water District #13's internal control over financial reporting and compliance.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC  
Muskogee, Oklahoma

November 29, 2021

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
OCTOBER 31, 2020

	<u>2020</u>
<b><u>ASSETS</u></b>	
<b><u>Current Assets:</u></b>	
Cash and cash equivalents - Unrestricted	\$ 439,002
Cash and cash equivalents - Restricted (Debt Service)	<u>83,230</u>
Total Current Assets	<u>522,232</u>
<b><u>Capital Assets:</u></b>	
Other Capital Assets	3,062,793
Less: Accumulated Depreciation	<u>(2,070,837)</u>
Total Capital Assets	<u>991,956</u>
<b><u>Other Assets:</u></b>	
ORWA Reserve Certificate	<u>1,000</u>
Total Other Assets	<u>1,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,515,188</u></b>
<b><u>LIABILITIES &amp; NET POSITION</u></b>	
<b><u>Current Liabilities:</u></b>	
Accounts Payable	\$ 480
Current Portion of Long-Term Debt	<u>60,000</u>
Total Current Liabilities	<u>60,480</u>
<b><u>Long-term Liabilities:</u></b>	
Note Payable	260,000
Less: Current Portion of Long-Term Debt	<u>(60,000)</u>
Total Long-term Liabilities	<u>200,000</u>
<b>TOTAL LIABILITIES</b>	<b><u>260,480</u></b>
<b><u>Net Position:</u></b>	
Net investment in capital assets	731,956
Restricted for debt service	83,230
Restricted for other purposes	1,000
Unrestricted	<u>438,522</u>
<b>TOTAL NET POSITION</b>	<b><u>1,254,708</u></b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b><u>\$ 1,515,188</u></b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS  
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2020

	<u>2020</u>
<b><u>Operating Revenue:</u></b>	
Water charges	\$ 385,067
Memberships	10,000
Other Income	<u>42,218</u>
Total Operating Revenue	<u>437,286</u>
<b><u>Operating Expenses:</u></b>	
Water Purchases	8,870
Personal services	171,059
Insurance	11,002
Repairs and maintenance	50,177
Office expense	10,233
Professional Fees	1,800
Telephone and utilities	27,118
Vehicles expense	9,026
Equipment	-
Miscellaneous	1,660
Depreciation	<u>77,776</u>
Total Operating Expenses	<u>368,720</u>
Operating Income (Loss)	<u>68,566</u>
<b><u>Other Revenues and (Expenses):</u></b>	
Interest Income	1,442
Interest Expense	<u>(12,504)</u>
Total Other Revenues and (Expenses)	<u>(11,062)</u>
Net Income (Loss) Before Contributions	57,504
Capital Contributions	<u>-</u>
Change in Net Position	57,504
Total Net Position, Beginning of Year	1,196,807
Total Net Position, Prior Year Adjustment	<u>397</u>
Total Net Position, End of Year	<u><u>\$ 1,254,708</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2020

	<u>2020</u>
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Receipts from Customers	\$ 437,286
Payments to Suppliers and Laborers for Goods & Services	<u>(290,464)</u>
Net Cash Provided (Used) by Operating Activities	<u>146,822</u>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Additions to Capital Assets	-
Capital Contributions	-
Loan Proceeds	-
Principal paid on Debt	(60,000)
Interest paid on Debt	<u>(12,504)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(72,504)</u>
<b><u>Cash Flows from Investing Activities:</u></b>	
Interest Income	<u>1,442</u>
Net Cash Provided (Used) by Investing Activities	<u>1,442</u>
Net Increase (Decrease) in Cash and Cash Equivalents	75,760
Cash & Cash Equivalents, Beginning of Year	446,074
Cash & Cash Equivalents, Prior Year Adjustment	<u>397</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 522,232</u></u>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<b><u>operating activities:</u></b>	
Operating Income (Loss)	\$ 68,566
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	77,776
Increase (Decrease) in Accounts Payable	<u>480</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 146,822</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

Rural Water District No. 13 (the "District") was created September 23, 2002 by the Board of County Commissioners of McIntosh County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes, Sections 1324.1 et. seq). The District was previously known as Salem Rural Water Corporation. The District is managed by a five member Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no component or oversight units. The District is a political subdivision of the State of Oklahoma.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2020

charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2020

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

D. Financial Position

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Capital Assets (Property, Plant & Equipment)

Property and equipment are recorded at cost as of the date of acquisition. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	5-60 years
Improvements, other than buildings	2-50 years
Mobile equipment	3-40 years
Furniture, machinery and equipment	3-30 years
Utility system	5-60 years

Purchases of capital items in excess of \$2,500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the District. The District does not record a liability for accrued compensated absences. Using the modified cash basis the amount paid for compensated absences is expensed as paid.

Pension

The District allows employees the option to participate in a SIMPLE IRA retirement plan. None of the District employees are participating at the present time.

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2020

Income Taxes

The District is conducting its affairs as a local government and has no provisions for income tax.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Net Position Classifications

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2020

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At October 31, 2020, the District held deposits of approximately \$522,232 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2020

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESERVE CERTIFICATES

The District has purchased reserve certificates totaling \$1,000 from the Oklahoma Rural Water Association Assurance Group (the Group). These certificates are on deposit in the self-insurance reserves of the Group under the Agreement Establishing the Oklahoma Rural Water Association Assurance Group entered into pursuant to the Oklahoma Interlocal Cooperation Act. The District has insurance coverage other than the self-insurance of the group. Reserve certificates may be surrendered and the deposit refunded subject to certain time and

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2020

notice requirements. The certificates accrue interest at a fluctuating rate on the basis of a 360-day year at the Treasury rate plus two percent per annum. The balance in the self-insurance reserve certificates is considered reserved net assets.

NOTE 5 - RESTRICTED CASH AND CASH EQUIVALENTS

The District reports restricted cash and cash equivalents for use as a debt reserve. These monies are held as a reserve for the Oklahoma Water Resources Board loan.

NOTE 6 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended October 31, 2020, was as follows:

	Balance at Oct. 31, 2019	Additions	Deductions	Balance at Oct. 31, 2020
Building	\$ 58,080	\$ -	\$ -	\$ 58,080
Water System	2,853,304	-	-	2,853,304
Equipment	151,409	-	-	151,409
Subtotal	3,062,793	-	-	3,062,793
Accumulated Depreciation:				
Building	43,704	1,181	-	44,885
Water System	1,810,205	70,487	-	1,880,692
Equipment	139,151	6,108	-	145,260
Total Accum. Depreciation	1,993,061	77,776	-	2,070,837
Total Capital Assets (Net of Depreciation)	<u>\$ 1,069,732</u>	<u>\$ (77,776)</u>	<u>\$ -</u>	<u>\$ 991,956</u>

NOTE 7 - LONG TERM DEBT

On November 24, 2009, the District borrowed \$835,000 from Oklahoma Water Resources Board (OWRB) for loan FAP-09-0002-L to refinance existing debt and complete a system upgrade. The loan was refinanced from a variable FAP loan to a fixed rate of 1.145%.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2020:

	Balance at October 31, 2019	Additions	Deductions	Balance at October 31, 2020
Note Payable - OWRB	\$ 320,000	\$ -	\$ 60,000	\$ 260,000
Total Long-Term Debt	<u>\$ 320,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 260,000</u>

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2020

Debt Services Requirements to Maturity

Year Ended October 31,	Principal	Interest	Annual Payment
2021	\$ 60,000	\$ 10,317	\$ 70,317
2022	65,000	8,055	73,055
2023	65,000	5,361	70,361
2024	70,000	2,797	72,797
2025	-	-	-
Total	<u>\$ 260,000</u>	<u>\$ 26,529</u>	<u>\$ 286,529</u>

NOTE 8 - RATE COVENANT

Under the terms of the Oklahoma Water Resources Board loan, the District is required to maintain a schedule of rates or charges for services sufficient to provide funds which together with other revenues pledged under the Local Act, will provide net revenues available for debt service equal to at least 125% of the maximum annual debt service requirement. The ratio for the current year is calculated as follows:

Revenues	\$ 437,286
Expenses	290,944
Revenues available for debt service	<u>\$ 146,342</u>
Debt service requirement	<u>\$ 72,504</u>
Ratio	2.02

NOTE 9 - NET POSITION

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

Note 4 & 5 above describe the restricted amounts.

NOTE 10 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at October 31, 2020, which would have a material effect on the financial statements.

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2020

Grant Program Involvement

In the normal course of operations, the District participates in various Federal or State grant or loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through November 29, 2021, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 2020.

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Rural Water District #13  
McIntosh County, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of Rural Water District #13, McIntosh County, Oklahoma, as of and for the year ended October 31, 2020, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles and have issued our report thereon dated November 29, 2021, which was an adverse opinion because of the unexplained differences in customer billings.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rural Water District #13's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District #13's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District #13's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the

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entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Items 20-01, 20-02 and 20-03 that we consider to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water District #13's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Rural Water District #13's Response to Findings

Rural Water District #13's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Rural Water District #13's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report

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is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC  
Muskogee, Oklahoma

November 29, 2021

RURAL WATER DISTRICT #13  
MCINTOSH COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
OCTOBER 31, 2020

INTERNAL CONTROL FINDINGS:

Item 20-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the District.

Response: The Board continues to be actively involved in the operations of the District.

Item 20-02: Bank Reconciliations

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The software program allows the bank reconciliation to appear to be balanced when it does not match the general ledger.

RURAL WATER DISTRICT #13  
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Cause/Effect: The financial statements contain misstatements and omit financial information.

Recommendation: Monthly bank reconciliations need to be performed on each bank account and the balance agree with that reflected in the financial statements.

Response: The District is aware of the problem.

Item 20-03: Safeguarding assets

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The District did not have strong internal controls in place for safeguarding its assets (i.e. cash).

Cause/Effect: Due to the weak internal control system, a breach of internal controls could occur. Cash payments could be received but never deposited.

Recommendation: The person responsible for receiving cash should be a different individual than the person responsible for making deposits.

Response: The Board continues to be actively involved in the operations of the District. However, it is not economically feasible to have more than one person reviewing transactions.

COMPLIANCE FINDINGS:

None